State of Tennessee
Finance & Administration, Division of Accounts
GASB 34 Implementation
Statement of Activities

Issue:

Which governmental activities, business-type activities, and component units should be reported in the Statement of Activities? How should general revenues be reported?

Background:

The Statement of Activities is a new statement promulgated by Statement 34. The statement nets program revenues with functional expenses and reports the extent to which governmental and business-type activities and component units are subsidized by general tax revenues.

Conclusion:

Governmental activities should be reported in the same functional categories as those currently reported in the governmental fund statement of revenues, expenditures and changes in fund balances—general government; health and social services; law, justice, and public safety; recreation and resource development; regulation of business and professions; transportation; and education. Interest on long-term general obligation debt is a separate line item. None of the general obligation debt is considered to be essential to the creation or continued existence of a program. Business-type activities are separated among employment security, insurance programs, loan programs, and surplus property. Component units are separated between higher education institutions, loan programs, and other. See attached format.

General tax revenues are classified between sales and use taxes, fuel taxes, business taxes, and other. Fuel taxes include gasoline, motor fuel, and petroleum products. Business taxes include gross receipts, beer, alcoholic beverage, mixed drink, excise, tobacco, coin-operated amusement, business, insurance companies premium, retaliatory, workers compensation premium, Medicaid provider, and franchise. Other taxes include privilege; inheritance, estate, and gift; income; and taxes not included in a separate category. The Program Revenues versus Taxes issue is presented in Position Paper #9.

The tobacco settlement revenue will be reported in the Miscellaneous category under General Revenues.

Prepared By: Dianne McKay
April 10, 2000
January 26, 2001 (Revised)

State of Tennessee
Finance & Administration, Division of Accounts
GASB 34 Implementation
ADDENDUM NUMBER ONE
TO POSITION PAPER 1
STATEMENT OF ACTIVITIES

Revisions have been made as follows:

<u>Under Functions/Programs of the Primary Government</u>
<u>Governmental Activities</u>
Add "State shared taxes paid to local governments" line item

<u>Business-Type</u>
Change "Surplus Property" to "Other"
This line item will include surplus property in addition to Internal Service Fund external transactions that are not eliminated.

<u>General Revenues</u>
Add "Contributions to permanent funds" line item

Prepared by: Dianne McKay
February 15, 2002

STATE OF TENNESSEE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2002

PROTOTYPE

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
					Primary Government			
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants & Contributions**	**Capital Grants & Contributions**	**Governmental Activities**	**Business-type Activities**	**Total**	**Component Units**
Primary Government:	$	$	$	$	$	$	$	$
Governmental activities:								
General government								
Health and social services								
Law, justice, and public safety								
Recreation and resource development								
Regulation of business and professions								
Transportation								
Education								
State shared taxes paid to local governments								
Interest on long-term debt								
Total governmental activities								
Business-type activities:								
Employment security								
Insurance programs								
Loan programs								
Other								
Total business-type activities								
Total primary government	$	$	$	$				
Component units:								
Higher education institutions								
Loan programs								
Other								
Total component units	$	$	$	$				
General revenues:								
Taxes:								
Sales and use								
Fuel								
Business								
Other								
Payments from Primary Government								
Grants and contributions not restricted to specific programs								
Contributions to permanent funds								
Investment earnings								
Miscellaneous								
Special item --(if any)								
Transfers								
Total general revenues, special items, and transfers								
Change in net assets								
Net assets--beginning								
Net assets--ending					$	$	$	$

DRAFT
PROTOTYPE

STATE OF TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS'
FOR THE YEAR ENDED JUNE 30, 1999

REVENUES	GENERAL	EDUCATION	TRANSPORTATION	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Taxes					
Licenses, fines, fees, and permits					
Federal					
Departmental services					
Other					
Total revenues					
EXPENDITURES					
Current:					
General government					
Education					
Health and social services					
Law, justice, and public safety					
Recreation and resources development					
Regulation of business and professional					
Transportation					
Debt service:					
Principal					
Interest and other charges					
Capital outlay:					
Total expenditures					
Excess (deficiency) of revenues over expenditures					
OTHER FINANCING SOURCES(USES)					
Proceeds of refunding bonds					
Payment to refunded bond escrow					
Bond and note proceeds					
Transfers in					
Transfers out					
Total other financing sources (uses)					
Net change in fund balances					
Fund balances--beginning					
Fund balances--ending	$	$	$	$	$

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Amounts reported for governmental activities in the statement of activities are different because (see Note X, also):

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lies as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments.

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Internal service funds are used by management to charge the costs of certain activities, such as MVM and OIR, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.

Change in net assets of governmental activities: $

DRAFT--PROTOTYPE

STATE OF TENNESSEE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 1999

	BUSINESS-TYPE ACTIVITIES--ENTERPRISE FUNDS				
	SEWER TREATMENT LOAN	EMPLOYMENT SECURITY	OTHER PROPRIETARY FUNDS	TOTAL PROPRIETARY FUNDS	GOVERNMENTAL ACTIVITIES--INTERNAL SERVICE FUNDS
Operating revenues:					
Charges for services					
Investment income					
Premiums					
Other					
Total operating revenues					
Operating expenses:					
Personal services					
Contractual services					
Materials and supplies					
Rentals and insurance					
Interest					
Depreciation and amortization					
Other					
Total operating expenses					
Operating income (loss)					
Nonoperating revenues (expenses):					
Interest Income					
Interest Expense					
Operating grants					
Grant expenses					
Total nonoperating revenue (expenses)					
Income (loss) before contributions and transfers					
Capital contributions					
Transfers in					
Transfers out					
Change in net assets					
Total net assets--beginning					
Total net assets--ending	$	$	$	$	$

State of Tennessee
Finance & Administration, Division of Accounts
GASB 34 Implementation
Major Funds Determination

Issue

Which funds should be reported as major funds in the Fund Financial Statements?

Background

GASB Statement 34 revised the fund financial statements to focus on major funds rather than fund categories and fund types. GASB's user studies found that combined information by fund type was not considered useful. Also, the board believed that a relatively high percentage of the government's fund assets, liabilities, revenues and expenses/expenditures would be reported in major funds. The board developed criteria with which to measure individual funds' assets, liabilities, revenue, and expenses/expenditures against the total for governmental funds and enterprise funds to determine which funds should be reported as major. Nonmajor funds should be reported in a single column.

Conclusion

Based on calculations made in the attached worksheet, the state has five major funds--General Fund, Education and Transportation (special revenue funds), Sewer Treatment Loan and Employment Security (enterprise funds).

Prepared By: Dianne McKay
April 13, 2000

GASB STATEMENT 34 MAJOR FUNDS DETERMINATION
(BASED ON 6/30/99 CAFR)

FUND	ASSETS	LIABILITIES	REVENUES	EXPENSES	MAJOR FUND=*
GOVERNMENTAL FUNDS					
General Fund	1,260,168	712,883	8,464,511	8,054,964	*
Special Revenue Funds:					
Education	337,131	325,663	3,462,476	2,859,303	*
Transportation	462,013	102,192	1,101,982	1,164,776	*
Wildlife Resources	36,542	2,887	50,454	48,993	
Criminal Injuries	69,724	5,174	15,492	5,172	
Solid Waste	11,095	3,500	11,368	10,864	
Job Skills	11,919	918	12,463	1,462	
Environmental Protection	11,375	11	22,256	24,677	
Hazardous Waste	10,400	1,374	5,749	6,485	
Parks Acquisition	18,334	725	7,885	4,994	
Supreme Court Bds	2,383	107	2,019	1,984	
Underground Storage	15,187	15,187	21,336	21,336	
Emergency 911	13	13	-	189	
Other	25,385	1,495	18,828	14,630	
Debt Service Fund	3,637	2,302	253,232	111,530	
Capital Projects Fund	178,287	34,772	19,693	105,889	
Total (less interfund + Chairs)	2,433,267	962,462	13,496,605	12,445,122	
10% of Governmental Funds	**243,327**	**96,246**	**1,349,661**	**1,244,512**	
ENTERPRISE FUNDS					
State Loan Program	28,164	24,383	1,199	1,291	
Sewer Treatment Loan	349,737	10	14,371	816	*
Energy Loan Program	16,875	-	942	-	
Teacher Group Insurance	20,070	18,376	123,419	128,862	
Local Govt Group Insurance	14,828	3,975	38,187	35,303	
Drinking Water	8,147	-	431	180	
Property Utilization	444	127	1,328	1,584	
Employment Security	973,547	17,946	369,597	362,769	*
Total	1,411,812	64,817	549,474	530,805	
10% of Enterprise Funds	**141,181**	**6,482**	**54,947**	**53,081**	
Total Gov'tl & Enterprise Fds	3,845,079	1,027,279	14,046,079	12,975,927	
5% of Total Govt & Ent Fds	**192,254**	**51,364**	**702,304**	**648,796**	

State of Tennessee
Finance & Administration, Division of Accounts
GASB 34 Implementation
Accounting for Depreciation Expense on the Statement of Activities

Issue

How to account for depreciation expense in the government-wide Statement of Activities?

Background

The capital assets reporting system is capable of calculating depreciation expense and cumulative depreciation on all depreciable assets. The Facilities Revolving Fund (FRF) accounts for all office and warehouse facilities but does not include institutional facilities. FRF is an internal service fund which currently allocates on a square footage basis all charges associated with office and warehouse space to the agencies/departments occupying that space. Therefore, depreciation will be charged to functions. Depreciation on institutional facilities will be allocated to the appropriate functions. The Office of Information Resources (OIR) and Motor Vehicle Management (MVM), both of which are internal service funds, currently allocate the cost of major computer systems and vehicles to state agencies/departments using those services.

The state's real property system records land and buildings and is capable of calculating depreciation on buildings. The MVM Fleet Tracker system records motor vehicle acquisitions and dispositions. The Property of State of Tennessee (POST) system records all equipment and personal property and is capable of calculating depreciation.

The state intends to use the alternative approach to depreciation for infrastructure assets. All expenditures made for infrastructure assets (except for additions and improvements) should be expenses in the period incurred. Statement 34 permits the optional approach providing the assets are being preserved approximately at (or above) a condition level established and disclosed by the state.

Conclusion

Depreciation for all buildings and equipment will be allocated among the functions reported in the Statement of Activities. According to Statement 34, depreciation expense for infrastructure assets may not be allocated to the various functions. Regardless, the state does not intend to depreciate infrastructure.

Prepared By: Dianne McKay
April 26, 2000 (Revised)

State of Tennessee
Finance & Administration, Division of Accounts
GASB 34 Implementation
Statement of Net Assets

Issue

A. Which format should be used for the Government-Wide Statement of Net Assets (GWSNA)?

B. How will internal balances (due to and due from other funds) be displayed on the GWSNA?

Background

A. The standard allows two options for the GWSNA:

   1. the balance sheet format: Assets = Liabilities + Fund Balance
   2. the net assets format: Assets – Liabilities = Net Assets

B. The first option allowed by the standard is to present internal on one line in the Assets Section of the GWSNA with the total column summing to zero. The other option is to present the receivable and liability separately in the Assets and Liabilities Sections. For this option, the total column will not sum correctly and a note disclosure is required to explain.

Conclusion

A. The group concluded the net assets format will be used.

B. The group concluded that presenting the internal balances on one line in the Assets Section was the best alternative.

Prepared By: Tammy Gourley
April 27, 2000

State of Tennessee
Finance & Administration, Division of Accounts
GASB 34 Implementation
Capital Grants

Issue

How will the state separate capital grants from operating grants for reporting purposes on the Statement of Activities?

Background

A capital grant is defined as a grant that is **restricted** for the purchase of capital assets. A capital asset is currently defined by State policy to be any one item in excess of $5,000.

Currently all federal grants are recorded as 801 revenue source regardless of whether they are used to fund operating or capital expenditures. Because we will be required to separate capital grants from operating grants in the statement of activities, it will be necessary to code such transactions separately.

The majority of capital grants received by the State are from federal sources. However, there are isolated instances where the State receives capital funds from a non-state source. An example would be local matching funds used in construction of armories by the State Department of Military. These funds are currently brought in as source codes 830 and 850.

These isolated instances typically involve the Capital Projects Fund (31) or the Highway Fund (21). Special consideration will need to be given when preparing these fund statements each year. Revenue sources will need to be reviewed and a determination made as to whether capital grant funds are present in these local government revenue codes.

The group agreed that a new revenue source code would be necessary to properly capture the accounting information for capital grants from federal sources. For some departments, capital grants are easily distinguished and are not co-mingled with operating funds. For other departments, operating and capital funds are co-mingled within grants. The requirement to separate operating and capital grants will present a challenge to some agencies.

Conclusion

A new revenue source code 802 will be established to account for federal grants that are capital in nature. Other revenue source codes in funds 21 and 31 will be routinely reviewed to determine if they contain capital grant funds.

The Highway Fund (21) presently enters into various grant agreements with the Federal Highway Administration (FHWA) for highway projects. It was agreed that these grant agreements would have to be reviewed by DOT individually to make a determination of the nature of the activities and record the federal revenue appropriately as capital or operating grants.

Prepared By: Margaret Wallace
April 11, 2000

Revised By: Michelle Elliott
January 22, 2001
August 3, 2001

State of Tennessee
Finance & Administration, Division of Accounts
GASB 34 Implementation
General Fund Inventories

Issue

The State has not previously booked supply inventories as an asset in the general fund. A determination needs to be made as to how this classification of assets will be treated for GASB 34 purposes.

Policy

In the past, the State has chosen not to reflect supply inventories on the general fund balance sheet due to materiality considerations. Although the year-end closing packet instructs agencies to perform counts of these items, the values have never been material enough to book.

Background

In September of 1999, Accounts sent out a survey to fiscal directors asking for the dollar value of 6/30/99 inventory counts. The responses received were from many of the general fund agencies. All agencies maintain routine office supply inventories. These are immaterial in nature and are not typically valued at year-end. However, several general fund agencies maintain inventories in institutional and other special settings. These inventories are of greater dollar values and are currently being counted at year-end. Examples of these agencies and their related institutional inventories include:

Correction	Prisons
Mental Health	Mental Health Institutes
Children's Services	Special Schools
Safety	Law Enforcement and Other
Environment & Conservation	State Parks and Geology

Based on the surveys returned, it is estimated that these inventories currently range from $15 - $20 million as of June 30, 1999.

Conclusion

Agencies will need to report material inventory balances to Accounts in conjunction with the year-end closing process. Accounts will record inventories based upon materiality considerations.

Prepared By: Margaret Wallace
April 11, 2000

State of Tennessee
Finance & Administration, Division of Accounts
GASB 34 Implementation
Capital Grants-Accounting for Grants Where the State Does Not Have Title to the Asset

Issue

How will the State classify grants on the Statement of Activities when grant agreements are restricted for capital purposes, but the State does not have title to the asset(s)?

Policy

A capital grant is defined as a grant that is restricted for capital purposes-to purchase, construct, or renovate capital assets. A capital asset is currently defined by State policy to be any one item in excess of $5,000. Position Paper #5, Capital Grants, defines how the State will classify capital grants on the Statement of Activities.

Background

The State receives grants from various sources for the purchase, construction and/ or renovation of capital assets. However, in some instances, the State does not have title to the asset(s). Below are examples of circumstances where this situation occurs:

The State receives federal grants for the Sewage Treatment Facilities Loan Program (Fund 35) and the Clean Water Fund (Fund 36) for the purposes of making loans to the local governments to aide in their construction of sewage and water treatment facilities. However, the local governments have title to the assets and not the State.

Also, the Tennessee Department of Transportation (TDOT) receives federal dollars from the Federal Transit Authority for the purpose of purchasing buses, vans, equipment, etc. However, these dollars are passed through to local governments as grants for the purposes of carrying out the grant. Again, the local governments have title to the assets and not the State.

As well, the Department of Correction is receiving federal funding for the construction of a prison for the Metro Government of Nashville and Davidson County. The funds are passed through to the local level for construction. The title to the asset will remain with the local government and not the State.

In addition, Military receives federal funding for the purpose of constructing military facilities (storage, sleeping, etc.) across the State. In various circumstances, the State is building these facilities on land licensed or leased from the federal or local government (Ft. Campbell, Catoosa, Milan, Jackson, AEDC, etc). It was determined that the State does own a number of these properties, however, several of these properties are owned by the federal government.

Conclusion

The rule of thumb is "does the State have an asset?" If the State has title to the asset(s) in which the restricted grant funds are used, then the grant is considered a capital grant. However, if the State does not have title to the asset(s), then the grant is classified as an operating grant on the State's Statement of Activities.

Prepared By: **Michelle Elliott**
January 22, 2001

State of Tennessee
Finance & Administration, Division of Accounts
GASB 34 Implementation
Funds Reclassification

Issue:

How funds should be reported.

Background:

In certain instances, GASB Statement 34 redefined the fund structure. Governmental funds include an additional fund type—permanent funds—which should be used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support reporting government's programs.

Enterprise funds are more distinctly defined; funds meeting certain requirements must be reported as enterprise funds. However, the government may elect to report funds as enterprise funds. Enterprise funds *may* be used to report any activity for which a fee is charged to external users for goods or services. However, activities are *required* to be reported as enterprise funds if 1) the activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity, 2) laws and regulations require that the activity's costs of providing services including capital costs be recovered with fees and charges, or 3) the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.

Fiduciary funds have undergone a significant change, in that, only funds in which the government truly acts in a fiduciary capacity are reported as private-purpose trust funds. Pension trust funds, employee benefit trust funds, investment trust funds, and agency funds continue to be reported as fiduciary funds; however, expendable and nonexpendable trust funds are no longer valid fund types. Instead, Statement 34 introduces the private-purpose trust fund which should be used to report all trust arrangements (other than those already mentioned) under which principal and income benefit individuals, private organizations, or other governments.

Conclusion:

All funds of the state were evaluated in light of the Statement 34 revisions. The following funds will require changes:

1. The Employee Flexible Benefits Plan that is currently accounted for in an expendable trust fund will be reported as an employee benefit trust fund. The fund is used to account for monies contributed by employees under the IRC Section 125 cafeteria plan wherein the employee deductions are tax exempt. Funds generated by employee forfeitures and FICA (employer's portion) savings, as well as, expenditures for administrative expenses of the plan will be accounted for in the General Fund. Resources of this plan are required to be held in trust for state employee participants.

2. The Employment Security Fund is required to be reported as an enterprise fund.

3. The Baccalaureate Education System Trust (BEST) fund is a private-purpose trust fund. Individuals purchase tuition units in advance through this fund.

4. The Academic Scholars Fund, administered by Tennessee Student Assistance Corporation, is a permanent fund. The largest part of this fund is an endowment of $3 million, where only the earnings may be used for scholarships.

5. The Chairs of Excellence Fund, administered by Treasury, is a permanent fund. It is an endowment made up of state appropriated monies and private matching contributions collected by the Tennessee Board of Regents and the University of Tennessee institutions. Chairs also includes matching funds from the Tennessee Board of Regents and the University of Tennessee institutions. Part of the earnings, as addressed in the Investment Policies for the fund, are used to endow faculty chairs at the institutions.

6. The Local Government Fund is an agency fund. Its purpose is to serve as a clearing account for monies distributed to counties and cities.

7. The Contingent Revenue Fund is made up of many sub-accounts. Each of these will be evaluated and placed into the appropriate fund classification. A separate position paper will be prepared on this fund.

8. Bond Refunding temporarily holds monies from bond refundings until due to bondholders. It will remain as an agency fund.

9. The Community Development Fund, administered by Economic and Community Development, is a revolving loan fund. Federal monies are used to make loans to communities who provide matching funds. It is a special revenue fund.

10. The Department of Energy Oak Ridge Settlement Fund, administered by Environment and Conservation, is a new nonexpendable trust fund for fiscal year ending June 30, 2001. $1 million will be received each year for 14 years. After 14 years, the earnings on the fund will be used to pay for the required maintenance and monitoring expenses of the landfill. The corpus shall not be available for expenditure. This fund will be reported as a private-purpose trust.

11. The Tennessee Student Assistance Corporation (TSAC) is a component unit of the state. In a separate stand-alone report, TSAC's financial activities are reported in two funds—a governmental fund which accounts for all transactions except those that are required to be accounted for in the fiduciary fund which primarily accounts for the Federal Family Education Loan Program. In the Comprehensive Annual Financial Report (CAFR), TSAC's financial activity is reported as a single unit and its total is combined with all other component units in the combined financial statements. Under GASB Statement 34, TSAC will likely continue to report its financial activities in a "general" fund and a private-purpose trust fund. However, for the CAFR, component units that currently report fiduciary activities will have those fiduciary activities excluded when the primary government rolls them up to the government-wide financial statements (Q&A #244). Therefore, because component units will be reported individually in the CAFR's Other Supplementary Information (OSI) section TSAC's fiduciary activities will be a reconciling item from the fund statements to the government-wide statements.

12. A separate paper will address activities of the General Fund that may require reporting in other kinds of funds.

Prepared By: Dianne McKay, Tammy Gourley, Ann Collett, Michelle Elliott
May 12, 2000,
January 26, 2001 (Revised)
March 1, 2001 (Revised)
July 17, 2001 (Revised)

State of Tennessee
Finance & Administration, Division of Accounts
GASB 34 Implementation
Program Revenue versus Taxes

Issue

To determine which revenues should be considered program revenues—charges for services. Program-specific operating and capital grants are discussed in Position Paper No. 5.

Background

The Statement of Activities requires a format that reports the net (expense) revenue of its individual functions. An objective of using the net (expense) revenue format is to report the relative financial burden of each of the reporting government's functions on its taxpayers. This format identifies the extent to which each function of the government draws from the general revenues of the government or is self-financing through fees and intergovernmental aid.

The Statement of Activities requires that revenues be categorized as general revenues or program revenues. Program revenues (reported in three separate columns) consist of 1) charges for services and 2) program-specific grants and contributions—operating and capital. Revenues not defined as program revenues are general revenues.

In identifying charges for services, the determining factor is which function *generates* the revenue, and for grants and contributions, the determining factor is to which function the revenues are *restricted*.

Conclusion

Program revenues are derived directly from the program/function itself or from parties outside the reporting government's taxpayers or citizenry. *Charges for serv*ices include revenues based on exchange, exchange-like, and nonexchange transactions. These revenues arise from charges to customers or applicants who purchase, use, or directly benefit from the goods, services, or privileges provided. For example, charges for services include fees charged for specific services, licenses, and permits. *Those who directly benefit* is interpreted to mean directly benefit by paying for the privilege or authorization to accomplish certain tasks or engage in certain regulated activities. Fines and forfeitures should be reported as program revenues because they "derive directly from the program" and "reduce the net cost of the function to be financed from the government's general revenues." Fines and forfeitures are generated by the program.

Generally, c*harges for services* relate to the function generating the revenue. Pass-through grants, on-behalf payments, and food stamp revenues are program revenue—operating grants. Gains on disposal of capital assets are not program revenue. The following is a list of significant state revenues and their classification:

Taxes:

Sales and use	Coin-operated amusement
Gasoline	Business
Privilege	Insurance companies premium
Gross receipts	Retaliatory
Beer	Workers compensation premium
Alcoholic beverage	Medicaid provider
Mixed drink	Motor fuel
Excise	Petroleum products
Inheritance, estate, & gift	Franchise
Tobacco	Income

Program Revenues:	**Generated by:**
Motor vehicle registration fee	Safety
Motor vehicle title registration fee	Safety
Drivers licenses	Safety
Arrests, fines, and fees	Programs in which charges are generated
Regulatory board fees	Regulatory Board from which charges are generated
Licenses and permits	Board from which charges are generated

Earnings of a permanent fund should be reported as program revenues.

Prepared By: Dianne McKay
January 17, 2001

State of Tennessee
Finance & Administration, Division of Accounts
GASB 34 Implementation
Reporting Infrastructure Assets

Issue:

How major infrastructure assets should be reported. For the state, major infrastructure assets primarily consist of various classifications of roadways, bridges, and right-of-way acres. The state is responsible for approximately 14,000 miles of roadway and approximately 8,000 bridges.

Background:

GASB Statement 34 requires governments to report infrastructure assets in the financial statements along with other capital assets. Governments are permitted to record infrastructure using an estimate of historical cost.

Infrastructure assets should be depreciated over their estimated useful lives, unless, the government qualifies for using the modified approach as an alternative to depreciation. Infrastructure assets that are part of a *network* or *subsystem* of a network are eligible infrastructure assets. The modified approach may be used providing:

1. The government manages the eligible infrastructure assets using an asset management system that has the following characteristics:

   - Has an up-to-date inventory of eligible infrastructure assets.

   - Performs condition assessments of the eligible infrastructure assets that are documented and replicable and summarizes the results using a measurement scale. A replicable condition assessment must be performed in a consistent manner at least every three years.

   - Estimates each year the annual amount to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the government.

2. The government documents that the eligible infrastructure assets are being preserved approximately at (or above) a condition level established and disclosed by the government.

Under the modified approach, all expenditures made to preserve (extend the useful life) or maintain infrastructure assets, except for additions and improvements, should be expensed in the period incurred. Additions and improvements that increase the capacity or efficiency of infrastructure assets should be capitalized.

If the requirements for the modified approach are not met, the provisions for depreciation should be applied for subsequent reporting periods (and reported as a change in accounting estimate).

Governments that report using the modified approach are required to present schedules for eligible infrastructure assets (by subsystem) derived from asset management systems as Required Supplementary Information (RSI). The following schedules should be presented:

- The assessed condition for at least the three most recent complete condition assessments, indicating the dates of the assessments.

- The estimated annual amount calculated at the beginning of the fiscal year to maintain and preserve at (or above) the condition level established and disclosed by the government compared with the amounts actually expensed for each of the past five reporting periods.

The schedules are accompanied by the following disclosures:

a) The basis for the condition measurement and the measurement scale used to assess and report condition.

b) The condition level at which the government intends to preserve its eligible infrastructure assets reported using the modified approach.

c) Factors that significantly affect trends in the information reported in the required schedules, including any changes in the measurement scale, the basis for the condition measurement, or the condition assessment methods used during the periods covered by the schedules. If the government changes a condition level, an estimate of the effect of the change on the estimated annual amount to maintain and preserve those assets for the current period also should be disclosed.

Governments may begin to use the modified approach for reporting eligible infrastructure assets as long as at least one complete condition assessment is available and the government documents that the eligible infrastructure assets are being preserved approximately at (or above) the condition level the government has established and disclosed.

The multi-year information in schedules reported, as RSI may not be available initially. In these cases, the information required should be presented for as many complete condition assessments and years of estimated and actual expenses as are available.

Although Statement 34 provides for delayed implementation to retroactively report infrastructure, the state intends to implement the infrastructure requirements at the same time as the reporting provisions.

Conclusion:

The requirement to report infrastructure was the first GASB Statement 34 issue the state accountants attempted to resolve. Given the size and complexity of this requirement, the state accountants realized it would take considerable time to evaluate and develop an approach. In addition, the state auditors needed time to evaluate the auditability of the state's approach. The auditors were provided with the first phase (historical cost) of the infrastructure approach for consideration in June 2000.

In the initial planning, the Department of Finance and Administration working with the Department of Transportation (DOT) decided the modified approach alternative was superior to depreciation because it provided more meaningful information. In addition, it was decided to implement infrastructure along with other provisions of GASB Statement 34 in fiscal year ending June 30, 2002.

The state's transportation system is a *network* consisting of two *subsystems*—roadways and bridges. RSI will be presented by subsystem. Land (rights-of-way) will be included in the land classification on the Statement of Net Assets. Infrastructure construction in progress will be included in the construction in progress classification on the Statement of Net Assets.

DOT had to determine whether asset condition systems in place were adequate to permit the state to apply the modified approach. At the same time, it was necessary to develop a method to calculate an estimate of historical cost.

<u>Asset Management System</u>

DOT determined that asset management systems were in place for roadways and bridges. However, documentation of the systems and the ability to replicate condition assessment needed improvement for systems to become compliant in time to implement infrastructure reporting by fiscal year ended June 2002. Some improvements necessary to create the system that would comply with Statement

34 requirements were defined and steps were taken to begin implementing these changes in July 2000. Further refinement, a computer-generated infrastructure condition rating methodology, was placed in operation in July 2001. Additional improvements will continue to be made to the infrastructure asset management systems over time.

In terms of condition assessment, GASB Statement 34 recognizes that national standards do not exist and, therefore, permits the government to establish a policy within certain parameters. DOT has developed a new rating system to complement its computer-generated infrastructure condition rating methodology. The state inspects bridges biennially and has a plan to maintain these structures in condition to meet current state standards. The same is true for roadways. The state assesses condition of roadways that are scheduled for resurfacing every twelve years; however, resurfacing may be done more frequently if the periodic condition assessment reveals the need. DOT intends to perform condition assessments using a sampling methodology. Bridge condition assessment will be performed every two years and, using the new condition rating methodology, roadway condition assessment will be performed each year beginning July 2001.

If the subsystem of infrastructure assets no longer meets the requirements to use the modified approach, depreciation of the assets would begin in the year subsequent to the year that the requirements to use the modified approach are not met. Even though residual value is a concept of depreciation, the state does not attribute residual value to infrastructure. Residual value is the estimated fair value of a capital asset remaining at the conclusion of its estimated useful life.

Historical Cost

The next step was to estimate historical cost. The DOT has an inventory of the state's roads, bridges, and right-of-way acres including information about when significant sections of roads were placed in operation and bridges were built. DOT's inventory systems include TRIMS for roadways, Bridge Systems for structures, and TRIS for right-of-way acres. An estimate of historical cost by subsystem was begun by calculating current cost deflated to the period the asset was placed in service. During this time, DOT located a document published by the American Association of State Highway Officials (AASHO which later became AASHTO) which included states' construction expenditures from 1914 to 1964, AASHO's first fifty years. DOT had historical cost data on its financial statements for the years after 1964. Using this financial data, DOT developed the historical cost data for the state's infrastructure. An estimation method was used to separate the AASHO construction expenditures by subsystem and right-of-way acres. The issue of recording duplicate costs for assets, which may have been replaced through the years, was considered. Analysis of the costs determined that such events were infrequent and immaterial. Attachment A contains certain documentation to illustrate the determination of historical cost.

Capital versus Noncapital Infrastructure Assets Under Modified Approach

Network infrastructure costs that are defined as additions or improvements will be capitalized, whereas, preservation and maintenance costs will be expensed. A dollar threshold will not be established to define a benchmark for capitalization of infrastructure assets. *Addition* and *improvement* projects increase capacity or efficiency of the asset, such as lane widening or alignment improvements that permit speed limits to be raised. *Maintenance* and *preservation* projects are those that either allow an asset to continue to be used during its originally established useful life or extend the useful life of an asset beyond its original estimated useful life.

Capitalized Infrastructure Assets

Infrastructure will be capitalized by subsystem. Bridges will be capitalized by bridge deck area (square feet) and roadway will be capitalized by lane miles. The measures will be obtained from TRIMS and reported each year for the June 30 financial reports. Bridges and roadway will be capitalized in the period in which a Completion Notice is received by DOT's fiscal office. Completion Notices originate from the DOT project engineer when the final inspection of the contractor's work has been done. Typically, the bridge or roadway section is open to the public at that time. The dollar amount capitalized each period for bridges and roadway will be the project-to-date expenditures for each completed project. Certain expenditures made each year for the planning and design of construction projects are associated with all projects in various stages and, therefore, these costs are not assigned to a particular project. Each year the total of these kinds of costs are allocated to projects—capital and noncapital—on a pro-rata basis. DOT's accounting system permits the classification of information necessary to distinguish between subsystems and types of costs.

Construction in Progress

Construction in progress reported on the Statement of Net Assets will include infrastructure capital construction projects' life-to-date expenditures for which a Completion Notice has not been received by DOT's fiscal office.

Right-of-Way Acres

Acreage acquired for right-of-way purposes will be recorded and capitalized each period. Sales of excess acreage are typically for small, odd pieces and are relatively inexpensive, therefore, such sales are considered immaterial and will not be recorded.

Expensed Infrastructure Costs

Expenditures for certain kinds of projects will not be capitalized, but will be expensed in the period incurred. Bridge and roadway expenditures for resurfacing projects and maintenance projects will be expensed. DOT's accounting system permits distinguishing these expenditures by activity codes. In addition, as mentioned above, planning and design expenditures will be pro-rated between capital projects and noncapital projects.

Disposal of Infrastructure Assets

An average cost for roadway and ROW will be calculated at June 30. The average costs will be based on lane miles for roadway and acres for land. When appropriate, roadway and ROW will be removed from the accounting records at these average costs. Bridges will be removed from the accounting records using a ratio of the old bridge square footage as the numerator and the new bridge square footage as the denominator. The ratio represents the percent of the bridge disposed of. The ratio will be multiplied times the cost of the new bridge and deflated using a Consumer Price Index (CPI) to the year the bridge was built; the deflated amount will be removed from the records.

Infrastructure assets are typically disposed of through abandonment or transfer to another government. For example, a roadway may be submerged when a new lake is built and therefore, abandoned, or a new roadway/bridge is built adjacent to an old roadway/bridge that will be transferred to the local government. Land associated with the disposal of infrastructure assets will be removed from the accounting system at a statewide average cost per acre based on a standard cross section of the lane miles removed.

When roadways are improved or expanded, DOT typically does not demolish the old roadbed, but instead adds to it. Therefore, the cost to build the roadbed is part of the cost of the new or improved roadway. The old roadbed is not disposed of, but becomes a part of the new roadbed. In that case, the cost of the old roadbed would not be removed from the asset records. When an existing bridge is scheduled for expansion, the old bridge is typically demolished because it is less expensive to demolish it rather than reconfigure it. In that case, the cost of the old bridge would be removed from the asset records.

Asset Condition Benchmark

DOT staff engineers will recommend the condition level that will be reported in Required Supplementary Information (RSI) as the condition assessment benchmark for roadways and bridges. An administrative procedure will be developed by DOT in cooperation with the Department of Finance and Administration to determine the reported condition level benchmark.

Infrastructure Other Than the Transportation Network

According to the GASB Implementation Guide (Questions 271, 282, and 283) thresholds are established for identifying *major* general infrastructure assets at the network or subsystem level. Based on that guidance, the state's threshold for networks is $167,669,200 and for subsystems is $83,834,600. Inquiries were made of capital projects staff to identify other infrastructure owned or maintained by the state. Infrastructure assets associated with the transportation network, such as rest areas, welcome centers, and weigh stations were found to have been previously capitalized and reported as *Structures and Improvements*. Department of Safety radio towers have been capitalized and DOT radio towers are being added to the structures and improvements capital asset classification. Sidewalks at prisons and mental health facilities not previously capitalized are considered immaterial, as are helicopter pads owned by the Department of Military. Dams, airports, railroads, boat ramps, fish hatcheries, man-made lakes, and hunting preserves were considered and found to 1) have been capitalized, 2) not belong to the state, or 3) be immaterial.

Required Supplementary Information

The schedule reporting maintenance/preservation cost estimates versus amounts actually expensed will report the estimates and the actual amounts on the accrual basis of accounting.

Prepared By: Dianne McKay
January 23, 2001
February 26, 2001 (Revised)
April 12, 2001 (Revised)
August 14, 2001 (Revised)
January 7, 2002 (Revised)

State of Tennessee
Finance & Administration, Division of Accounts
GASB 34 Implementation
Invested in Capital Assets, Net of Related Debt

Issue:

How to report general obligation debt related to capital assets.

Background:

GASB Statement 34 requires that capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets be reported as a component of net assets in the Statement of Net Assets.

Significant unspent debt proceeds at year-end should not be included in the calculation of the related debt. Instead, unspent proceeds will be reported in a net assets component.

Debt issued to refund existing capital-related debt should be considered capital-related debt.

Debt that is used to acquire assets for other governments or component units, i.e., situations in which the issuing government does not record an asset, should not be included in the *invested in capital assets, net of related debt* component. Debt issued to acquire assets for others should be included in the *unrestricted net assets* component.

Conclusion:

Capital assets, net of depreciation and reduced by the outstanding balance of any borrowings, are reported only in the government-wide financial statements. In addition to capital assets formerly reported in the General Fixed Assets Account Group (GFAAG), Internal Service Funds' capital assets, net of depreciation, are included in Governmental Activities' Capital Assets and, therefore, are also included in *invested in capital assets* in the Net Assets section of the Statement of Net Assets.

Although the general obligation (GO) debt issued by the state is for capital purposes, the assets acquired with debt are capitalized in accordance with the state's policy on capitalization. Regardless, for reporting *invested in capital assets, net of related debt* it is assumed that GO debt proceeds are used to acquire assets that are capitalized. According to the GASB 34 Implementation Guide (Question 91), debt proceeds are not required to be divided between assets that are capitalized and those that are not.

A large part of the state's GO debt proceeds is used to acquire assets for the University of Tennessee and Tennessee Board of Regents Systems (component units) and, to a lesser extent, GO debt funds grants to local governments or governmental not-for-profits.

Outstanding debt at year-end will be segregated between debt issued for the primary government's assets and debt issued to acquire assets for others, i.e., component units and grants. GO debt issued to acquire assets for Internal Service Funds will be included in the Governmental Activities column. Each bond issue will be categorized by governmental-type activities and other (component units and grants) and a percentage of each bond issue by category to the total bond issue will be calculated. At year-end, the percentage calculated will be applied to the amount of bonds outstanding by issue and by category. If a bond issue is refunded, the original percentage applied to refunded bonds will be applied to refunding bonds. The amount of bonds outstanding for governmental activities will be adjusted for unamortized bond discount and/or premium and will be reduced by the unamortized deferred amount on refunding. In addition, *invested in capital assets* will be reduced by capital lease obligations outstanding at year-end.

The year-end outstanding balance of GO commercial paper will be evaluated similarly. A data base report which is currently used to evaluate ongoing capital projects for GO commercial paper draws will be used to categorize commercial paper outstanding at year-end. The commercial paper balance will be prorated by category to isolate the amount applicable to governmental activities.

The GO bonds, GO commercial paper, and capital leases calculated in accordance with the foregoing will reduce the capital assets referred to above in the Net Assets section of the Statement of Net Assets.

Prepared By: Dianne McKay
January 30, 2001

State of Tennessee
Finance & Administration, Division of Accounts
GASB 34 Implementation
Compensated Absences

Issue

The compensated absences for the state must be reported by function on the Statement of Activities and broken down by current and long-term liability portions on the Statement of Net Assets. This paper addresses how the totals will be derived, how the breakdowns for each of the two statements will be determined, and how the information is presented in the Notes to the Financial Statements.

Background

The compensated absences that represent benefits earned by employees include both annual and compensatory leave. Based upon the definition and requirements of GASB Statement 16 "Accounting for Compensated Absences," the state currently reports a liability for compensated absences for annual and compensatory leave. The related benefits that must also be paid are also included in the total calculation. Currently, the employer FICA portion is the only related benefit that meets this definition. Sick leave is not included in the liability because it is earned only after a specific contingent event has occurred (i.e. the employee becomes sick). Sick leave is reported in the Notes to the Financial Statements only.

Presently, a report is generated at fiscal year-end with the hours and dollar balances for each employee whose leave is maintained on the State Employee Information System (SEIS). For those employee balances not included on SEIS (i.e. Legislative and Judicial Branches), letters are received from each department detailing the information needed to do the comparable calculation. These amounts are used to calculate the total of the compensated absence liability that has been reported in each of the past years' CAFR. Because the information currently received is summarized by department/division, the liability balance can be tied to the appropriate activity on the Statement of Net Assets and the change in liability can be determined by function to record the appropriate expense on the Statement of Activities.

To satisfy the new reporting requirements, two additional reports are being created. "Leave accrued" hours by employee and "leave taken" hours by employee will be accumulated throughout the fiscal year. At year-end, two new reports will be generated--Leave Accrued during the Fiscal Year and Leave Taken during the Fiscal Year. These will use the accumulated hour data and calculate the dollar amount based upon the current salary rate by individual. Amounts for the additions and deductions columns in the notes will be taken from these reports.

Conclusion

The total liability will be calculated for the new reporting model using the same process that is currently in place, except that the employer's contributions to pension plans will be included in the accrual as salary-related payments. The allotment code associated with each employee balance will be the basis for categorizing the liability into the various functions identified on the Statement of Activities. Note disclosures will be taken from the new reports identifying leave accrued and taken.

The breakdown between the current and long-term liability on the Statement of Net Assets will be determined by developing a percentage to be used as an estimate of current. The estimate, based on hours accumulated by the Executive Branch employees, will be applied to each branch of government. A worksheet will be developed with data from each employee's leave records in SEIS, e.g., Beginning Balance, Hours Earned, Hours Used, and Ending Balance. Considering each employee, the smaller of his or her "Beginning Balance" or "Hours Used" will be identified in a separate column. A percentage will be calculated using the grand total of all employees' hours in the separate "smaller" column as the numerator and the grand total of the "Beginning Balance" hours as the denominator. The percentage thus calculated would be applied to the grand total "Ending Balance" to estimate the current portion of the total liability. This estimate will also consider any other material factors that may exist such as a change in the leave policies. Also, this estimate will likely be revised in the future as trend information becomes available.

Prepared By: Kristi Couch
February 5, 2001
Revised August 7, 2001
January 8, 2002 (Revised by Dianne McKay)

State of Tennessee
Finance & Administration, Division of Accounts
GASB 34 Implementation
Artifacts and Historical Treasures

Issue

What collections of artifacts and historical treasures does the state own and how will the requirements for capitalization, depreciation, and disclosure apply? Also, how will the state report donations to the collections?

Background

GASB 34 Paragraph 27 states that governments are encouraged, but not required, to capitalize works of art, historical treasures, and similar assets that can be defined as a collection. The collection definition states that items are 1) held for public exhibition, education…rather than financial gain, 2) protected…and preserved, and 3) subject to an organizational policy that requires the proceeds from sales…to be used to acquire other items for collections. The Implementation Guide further states that the organizational policy does not have to be a formal policy. The following items have been identified for the State of Tennessee as possible collections.

The Tennessee Arts Commission is responsible for maintaining various collections including the artifacts in the Tennessee State Museum housed in the James K. Polk State Office Building, paintings and antique decorative items in the State Capitol, and artifacts in the Military Museum in the War Memorial Building. The Executive Director of the State Museum stated approximately 90,000-100,000 items are maintained in the collection with a current estimated fair market value of $40 million. The collection is recorded by Treasury's Division of Risk Management at $26.6 million as of 1/1/2000.

The sculptures and statues on the grounds of the Capitol Complex are under the direction of the State Architect's office. According to the State Architect, a physical inventory is currently being compiled of all the items included in this collection; however, no values are being associated with the items.

The Department of Environment and Conservation also maintains collections of archaeological artifacts, mainly at the Pinson Mounds State Park. The State Archaeologist is considered to be the custodian of these items. The State Archaeologist also maintains a current inventory of this collection, but no dollar values have been assigned to the items.

The Secretary of State's office has administrative responsibility for the State Library and Archives as well as the Regional Library System throughout the state. The State Library and Archives holds collections of documents such as papers and memoirs of former governors, original manuscripts, and collections of genealogical research data. (The State purchases books for the State Library and Archives as well as the Regional Libraries but does not consider these holdings to meet the definition of a collection. Large sets of reference books such as law books, TCA, etc. that meet the capitalization threshold of $5,000 or more are currently capitalized as a "regular" fixed asset and will continue to be recorded as such. All other book and media purchases for the libraries are expensed because the individual items are below the capitalization threshold and the State has no control of the physical custody of the books purchased for the regional libraries.)

Paragraph 28 indicates that governments should recognize as revenue donations of works of art, historical treasures, and similar assets. If the donated item is added to a noncapitalized collection, a program expense equal to the amount of revenue is recognized, therefore having no effect on the bottom line of the financial statements.

Policy

Currently, none of the collections are capitalized. The sale of artifacts is regulated by the Department of General Services, Division of State Personal Property Rule 0690-2-1, as authorized under TCA 12-2-409, amended by Public Chapter 277, Acts of 1981. The former Chief Curator, James Kelly, prepared the original document from which the legislation was drafted which included the provision that proceeds from such sales would be used by the State Museum for the acquisition of other objects. TCA 4-12-110 also requires that "any profits derived from this operation (State Museum) shall be used in the programs of the state museum." None of the items included in Architect's collection would be considered for sale. TCA 11-6-104 allows for the Archaeologist to loan objects from the collection under his custodial care but does not specifically permit the sale of items.

The State Museum routinely receives donated items from various sources. Each time a donated items is received a "Deed of Gift" is completed which transfers legal title of the item from the donor to the museum and lists the donor's valuation of the gift.

The State Library and Archives periodically receives donated items as well. The current "Donor Agreement" which transfers legal title of the item from the donor to the State Library and Archives does not include a donor's valuation of the gift. However, personnel at the library are revising the standard agreement to allow for a valuation to be added to the document. This will be in place for fiscal year 2001.

Conclusion

Because each of the above collections identified meets the GASB 34 definition of a collection, management's decision is to not capitalize these items. In accordance with

Paragraph 118 of the Statement, a description of the collections and the reason for not capitalizing each will be disclosed in the Notes to the Financial Statements.

The deeds of gift and revised donor agreements will be used to compile the total revenue and related expense that will be recorded in the financial statements. The other categories of collections above rarely, if ever, receive donations.

Donations that are received will use the donor's valuation and will be reported on the entity-wide Statement of Activities as Program Revenue--Operating Grants and Contributions with a related expense in the applicable functional category based upon to whom the donation was made. On the governmental fund statements, the revenue will appear in the Other classification and the related expense in the applicable functional category.

Prepared By: Kristi Couch
March 13, 2001
Revised April 30, 2001

State of Tennessee
Finance and Administration, Division of Accounts
GASB 34 Implementation
Required Supplementary Information (RSI) Other than MD&A

Issue

What requirements does Statement 34 make on presenting certain data as required supplementary information (RSI) other than management's discussion and analysis (MD&A) and how will they be presented in the State's CAFR?

Background

Statement 34 requires governments to present MD&A and information about infrastructure assets reported using the modified approach as RSI. Budgetary comparison schedules for the general fund and for each major special revenue fund that has a legally adopted budget may be presented as RSI or as a statement in the basic financial statements. However, for purposes of this paper, we will not address requirements of MD&A.

Accordingly, budgetary comparison schedules should be presented for the general fund and each major special revenue fund using the budget document or statement of revenues, expenditures and changes in fund balance format. The budgetary comparison schedule should present both the original and final approved budgets and may report any variance between the two. Also, the schedule should present actual inflows (revenues, transfers in, other financing sources, etc.), outflows (expenditures, transfers out, other financing uses, etc.) and balances stated on the government's budgetary basis and the variance between the final budget and actual amounts is encouraged, but not required.

The original budget is the first complete appropriated budget. Appropriated budget is defined as "the expenditure authority created by the appropriation bills or ordinances which are signed into law and related estimated revenues." It may be adjusted by reserves, transfers, allocations, supplemental appropriations, etc. before the beginning of the fiscal year. It should also include actual appropriation amounts automatically carried over from prior years by law, such as, carry forwards (Unencumbered Balance) (UEB), capital outlay, encumbrances etc. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes applicable to the fiscal year, whenever signed into law or otherwise legally authorized.

Disclosure information reconciling budgetary basis to GAAP basis should accompany the budgetary comparison either in a separate column, schedule, notes to RSI, or notes to the financial statements depending on how the comparison information is presented. In addition, any excess of expenditures over appropriations in individual funds should be disclosed in the notes to RSI or notes to the financial statements.

Governments using the modified approach should present the following schedules as RSI:

- the assessed condition for at least the three most recent complete condition assessments, indicating the dates of the assessments.

- the estimated annual amount calculated at the beginning of the fiscal year to maintain and preserve at (or above) the condition level established and disclosed by the government compared with the amounts actually expensed for each of the past five reporting periods. The actual expenses should be reported on the accrual basis of accounting and if the estimated amount is not based on the accrual basis of accounting, that basis may be disclosed in the notes to RSI (Question # 40, 2nd Q&A Implementation Guide).

The above schedules should accompany the following disclosures:

- the basis for the condition measurement and the measurement scale used to assess and report condition.

- the condition level at which the government intends to preserve its eligible infrastructure assets reported using the modified approach.

- factors that significantly affect trends in the information reported in the required schedules, including any changes in the measurement scale, the basis for the condition measurement, or the condition assessment methods used during the periods covered by the schedules. If there is a change in the condition level at which the government intends to preserve eligible infrastructure assets, an estimate of the effect of the change on the estimated annual amount to maintain and preserve those assets for the current period also should be disclosed.

Conclusion

It was decided that the budgetary comparison schedule would be included as RSI and not as part of the basic financial statements. There will be a schedule for the general fund and each major special revenue fund. The schedule will be in the statement of revenues, expenditures and changes in fund balance format and will not include any variances on the face of the schedule. However any excess of expenditures over appropriations will be disclosed in the notes to RSI as required. The presentation of the budget to GAAP differences will be included in the notes to RSI. It was decided we would have to analyze the authority for each of the carry forwards (UEB) and capital outlay amounts to determine which amounts will be included in the original budget. Prior to GASB 34, we reported encumbrances for items ordered but not received as a use of financial resources in the year the orders were placed and added any savings back to the beginning budgetary fund balance in the year the encumbrances were liquidated. It was determined that GASB 34 requires that we include the prior year encumbrances as part of the original budget each year (Statement 34, ¶ 130 a.; Question #252, 1st Q&A Implementation Guide). Therefore, any prior year encumbrances will be "reappropriated" to the beginning budgetary fund balance, as part of the original budget and any expenditure against those encumbrances or any of the encumbrances remaining at the end of the fiscal year will be reported as a use of financial resources. Any savings realized in the year the encumbrances are liquidated will then be reflected in the ending budgetary fund balance.

As stated in Position Paper #10, Reporting Infrastructure Assets, it was decided to use the modified approach for reporting infrastructure and to implement infrastructure in fiscal year ending June 30, 2002. The RSI for infrastructure will be presented by subsystem (roadways and bridges) in the above mentioned schedules and related disclosures.

Prepared By: **Michelle Elliott**
February 13, 2002

State of Tennessee
Finance & Administration, Division of Accounts
GASB 34 Implementation
Internal Service Fund Activity and Balances

Issue:

How will the internal service fund (ISF) transactions be eliminated for presentation on the Statement of Activities and how will the ISF balances be shown on the Statement of Net Assets?

Background:

Paragraph 59 of GASB 34 requires that "eliminations should be made in the statement of activities to remove the 'doubling-up' effect of internal service fund activity." Paragraph 58 requires eliminations to be made on the statement of net assets within the governmental and business-type activities columns for any interfund receivables and payables, the net of which are to be presented as internal balances and eliminated in the total primary government column. Any remaining asset and liability balances of the ISFs, according to paragraph 62 should be reported in the governmental activities (unless the ISF's predominant customer is an enterprise fund, in which case the balances would be reported as business type activities).

Conclusion:

Transactions between each ISF and its customers will be identified. After isolating the transactions with functions of the primary government, the net operating gain or loss for each ISF will be allocated to the interdepartmental customers based upon their percentage of the total expenses charged to all interdepartmental customers. The net income/loss will not be allocated to any "third-party" customers as indicated in Exercise #4 of GASB's first Implementation Guide for Statement 34, page 225. Instead, transactions with these external customers will be included on the Statement of Activities under the general government function.

The net interfund receivables and payables between governmental and business-type activities will be shown on one line item entitled "Internal Balances" to eliminate the "grossing-up" of assets and liabilities of the two columns, as indicated in Position Paper #4. All remaining asset and liability balances of the ISFs will be added into the governmental activities column since none of the current ISF's have enterprise funds as predominant customers. Any under/overcharge allocated to business-type activities will result in an interfund receivable/payable between the governmental and business type activities.

Prepared By: Kristi Couch
January 11, 2002
March 7, 2002 (Revised)